

Sitrep

26 April 1983

Yugoslavia

According to the US Embassy in Belgrade, Yugoslavia's effort to draw a \$500 million credit from the Bank for International Settlements (BIS) remains stymied by problems over negative pledge clauses. The BIS is requiring gold collateral for \$200 million of the credit, but before pledging gold the Yugoslavs must obtain waivers from creditors holding clauses entitling them to equal security. A Kuwaiti-owned bank in Bahrain, which holds the last outstanding clause, has not yet lifted this restriction even though Yugoslavia paid off overdue interest to the bank.

[redacted] Belgrade is very upset with the apparent unwillingness of the Kuwaiti government to intervene in lifting the gold clause and with Kuwait's failure to provide financial aid in concert with Western governments. [redacted]

[redacted] US Embassy that there are still problems with French banks regarding the waiver of their negative pledge clauses. The French had refused to waive clauses contained in \$150 million worth of loans from 1981 until other Western banks agreed to exclude these loans from the commercial banks' refinancing package. In mid-April the French banks offered an unspecified "conditional" waiver which the BIS found unacceptable. Belgrade hopes to draw this week the \$300 million part of the BIS credit not backed by gold while pursuing official discussions with Kuwait and France on their negative pledge

clauses.

does not believe

Yugoslavia will have to refinance its obligations in 1984. The

based on the following considerations:

-- the tentative refinancing program under discussion with Western governments and banks provides for new money to build up reserves and will ensure a rollover of short-term debt [REDACTED]

-- Yugoslavia's current account deficit will decline in 1983 and reach balance in 1984. Economic recovery in the West and Yugoslavia's recent devaluations will spur exports while earnings from tourism and worker remittances will increase; and

doubt that Yugoslavia can boost export earnings by 8 percent as [redacted] when growth in major Western markets will be less than half this rate. [redacted] projections for earnings from tourism and worker remittances may also be high. [redacted]

that net inflows from worker remittances

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[redacted]

continued to lag in the first months of 1983. We estimate that the 1983 current account deficit could be at least twice as large as the \$500 million deficit [redacted] If

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Yugoslavia's payments deficit for 1983 reached \$1 billion, even the full refinancing package now under discussion would be inadequate to build up the country's reserves. Moreover, poor current account performance presumably would discourage banks from extending any more credits than those in the refinancing agreement. Belgrade would then enter 1984 in the same predicament that it faced at the beginning of 1983. The country would have little, if any, hard currency reserves, face its seasonal shortfall in foreign exchange earnings in the first half of the year, and have to cover some \$2.5 billion in maturing medium and long-term credits during 1984. [redacted]

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Romania

[redacted] final agreement on the 1983 rescheduling of Romania's debt to banks was reached at the 13 April meeting with Western bankers in Zurich. The accord calls for rescheduling 70 percent of principal payments due this year. The bankers deferred from July to August the first of four 1983 payments on the remaining 30 percent of principal. Proposed interest rates of one and three-quarters percentage points over LIBOR with a one-percent front end fee mirror the 1982 agreement. [redacted]

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[redacted] Romania has only failed to meet payments on government debts being contested in court and that payment will be made if the courts so order. [redacted]

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[redacted] largely credit Romanian Minister of Finance Petre Gigea for the improvement in relations with Romania this year. Gigea has established considerable creditor confidence, and the Romanians have been easier to deal with than last year.

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[redacted]

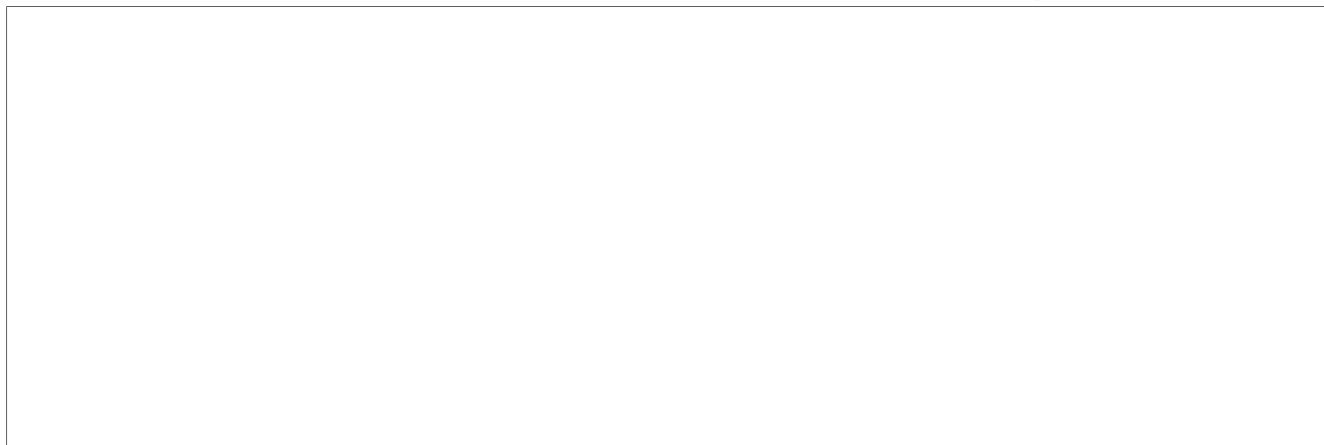
The US Embassy in Paris reports that the Paris Club rescheduling meeting for Romania has been postponed at the request of a number of delegations who have short-term arrears or unsigned bilateral agreements with Romania. It was agreed that the chairman would send the Romanian finance minister a letter requesting confirmation by 6 May of settlement of all arrears to Paris Club creditors. Once creditor verification is received,

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the Paris Club would notify Bucharest that it is prepared to negotiate the 1983 rescheduling agreement on 16-17 May.



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[redacted]

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Hungary

[redacted]

the \$200 million

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three-year loan syndicated for Hungary by Deutsche Bank was signed in Budapest on 18 April. Once the \$200 million subscription goal was reached in late March, Deutsche Bank offered the loan for additional syndication to 94 banks. Only three banks responded positively offering a total of \$7.5 million which will be used to reduce lead manager shares. [redacted]

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[redacted]

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On 15 April, according to press reports, Western central banks granted Hungary a \$100 million short-term credit through the BIS. The loan was made despite assertions by central bankers that the \$500 million credit for Yugoslavia would be the last BIS bridging loan. The Hungarian credit represents a partial extension on the \$300 million BIS loan that came due in April. The IMF will repay the central banks in June out of the quarterly disbursement of its standby credit for Hungary. Earlier this year, the Hungarians broached the possibility of renewing the entire BIS loan to prevent depletion of their reserves. With completion of the Deutsche Bank loan, central bankers apparently concluded that Budapest could meet its BIS obligation out of commercial borrowings and IMF credits. [redacted]

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Although the Deutsche Bank syndication was a major achievement for Hungary, the need for a partial extension on the BIS loan indicates that the country's reserves remain dangerously low. [redacted] the Hungarians still fear a withdrawal of short-term credits that could exhaust their foreign

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[redacted]

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[REDACTED]

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exchange assets. In our judgment, Hungary will be unable to raise enough commercial credits and to record a large enough payments surplus to rebuild its reserves by \$500 million in 1983 as projected by the IMF. [REDACTED]

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[REDACTED] US Embassy in Budapest that Hungary may well request a second IMF standby credit later this year in order to strengthen its financial position. [REDACTED]

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[REDACTED]

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[REDACTED]

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Poland

Several meetings over the past month have produced little progress in an accord on rescheduling Polish debt to commercial banks. [REDACTED]

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National Coordinating Committees (NCCs) met at the end of March to prepare a response to the Polish proposal of 21 March to reschedule all principal and interest due between 1983 and 1990 for repayment during 1990 and 2002. [REDACTED]

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[REDACTED] the consensus view of the committees was that the terms were "obviously unreasonable" and that the Poles were not prepared to negotiate seriously. [REDACTED]

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[REDACTED] said that the committees agreed to seek terms similar to the 1981 and 1982 agreements, which provided for rescheduling of 95 percent of principal and no rescheduling of interest. [REDACTED]

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Representatives of eight Western banks, using the guidance from the NCC meetings, met with Polish officials in Zurich on 15 April. [REDACTED]

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[REDACTED] the Poles repeated the terms offered in March, which the bankers refused to consider a formal proposal. [REDACTED]

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[REDACTED] after the meeting the banks sent a message to Warsaw asking "to begin serious discussions" that would lead to "an agreement substantially similar to that of 1982." No further negotiations are scheduled; [REDACTED] the banks will take the initiative if by 7 May the Poles do not propose a meeting. [REDACTED]

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[redacted]

From Zurich, the Polish officials came to the United States last week to visit banks in New York, Chicago, and California.

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[redacted] Bank Handlowy President Glazewski

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appealed to the following terms to reschedule of 95 percent of principal and more than 50 percent of interest payments due between 1983 and 1985. It is not clear whether these terms, which are not far from what the banks have offered, represent a revised proposal by the Poles. Glazewski's proposal was made to one bank, and [redacted] earlier in the week he gave no indication of offering terms different from those proposed previously. [redacted] characterized the Poles' visit to the banks as a head-on collision. [redacted]

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[redacted] the delegation, after failing in attempts to obtain agreement with the banks, will return to Warsaw and seek the regime's approval to offer a more accommodating proposal. [redacted]

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The banks have presented a relatively united front to the Poles so far, but [redacted]

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there are some differences among them. Although we know of no bank that would accept the terms proposed by Warsaw, some West German banks--especially Dresdner Bank, the leader of the bank group--are most inclined to grant generous rescheduling terms. Swiss banks as well as Lloyds Bank International of the United Kingdom also take a relatively soft line. Most banks in the US apparently favor an agreement at least as favorable to them as last year, and one bank has argued for a higher interest spread

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[redacted]

on rescheduled amounts. Barclays and other British banks, French banks, and a few West German banks side with the US position. [redacted]

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[redacted]

Embassy Paris reports that the 11 April Paris Club meeting on Poland was a relatively low-key affair. Most countries--Canada and the Netherlands were the exceptions--indicated a desire to begin discussions with the Poles on rescheduling. The non-NATO countries were most insistent, but except for a veiled threat by Sweden, they did not push their previous threat to split from the Paris Club to reach a separate agreement from Warsaw. The creditors adopted a recommendation by the US representative to examine the issue in capitals at the political level and to reconvene the week of 13 May for further discussions. Several creditors--the neutrals, West Germany, Belgium, and Denmark--want the next meeting to decide to move forward with Polish debt ⁱⁿ to the Paris Club. (C Exdis)

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